

Message Text

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21

ACTION EUR-12

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7505

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: PARIS FOREX MARKET DEVELOPMENTS

REFTEL: PARIS 2958

1. A SHARP RISE IN DEMAND FOR D-MARK FORCED THE BANK OF FRANCE TO INTERVENE YESTERDAY, FEB. 3, IN ORDER TO PREVENT THE D-MARK FROM RISING BY MORE THAN ONE PERCENT IN ONE DAY'S TRADING. SUCH INTERVENTION TO PREVENT INCREASES OF MORE THAN ONE PERCENT PER DAY IS CALLED FOR BY EC "SNAKE" ARRANGEMENTS.

2. TODAY, FEB. 4, IS DESCRIBED AS THE CALMEST IN SOME TIME. THE D-MARK RATE BARELY CHANGED. THE BANK OF FRANCE DENIED INTERVENTION BUT SOME MARKET SOURCES THINK THAT THERE WAS MODERATE INTERVENTION IN D-MARK.

3. MEANWHILE, WITH NO EVIDENCE OF OFFICIAL DOLLAR INTERVENTION, THE FRANC CONTINUES A MODEST APPRECIATION AGAINST THE DOLLAR, CLOSING TODAY AT 4.46625 HIGH AND

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4.45625 LOW. THE RELATIVE WEAKNESS OF THE DOLLAR TO

THE D-MARK IS ATTRIBUTED HERE TO THE RECENT DECLINE IN U.S. INTEREST RATES. FRENCH FINANCIAL CIRCLES NOW GENERALLY EXPECT: (A) THE U.S. PRIME RATE TO GO TO SIX PERCENT; AND (B) A PHASE OF GRADUAL AND MODERATE DOLLAR DEPRECIATION, INITIALLY AS THE RESULT OF LOWER INTEREST RATES IN THE U.S. AND MORE CONTINUOUSLY AS THE RESULT OF A RELATIVELY STRONGER U.S. ECONOMIC RECOVERY THAN ELSEWHERE. THIS COULD HELP TO CONSOLIDATE THE FRANC'S POSITION ACCORDING TO THESE OBSERVERS WHO NOW EXPECT A SOMEWHAT APPRECIATED FRANC RATE VIS-A-VIS THE DOLLAR. FOR THE MEDIUM TERM THE CLEAR POSSIBILITY OF A CONSIDERABLY STRONGER D-MARK IN CONJUNCTION WITH A RELATIVELY WEAK FRANC IS BEGINNING TO SINK IN. RECENTLY AN ARTICLE IN LES ECHOS, A LEADING ECONOMIC AND FINANCIAL JOURNAL, SPECULATED ON THE POSSIBILITY OF CHANGES IN THE EC "SNAKE" LARGELY FOR THIS REASON.

4. DESPITE SPECULATION ABOUT SUCH DEVELOPMENTS, THE MAJORITY OF EXCHANGE DEALERS IN PARIS BELIEVE THAT THE FRANC'S POSITION IS RELATIVELY SECURE, WITH A RANGE OF 4.40 TO 4.55 FRANCS TO THE DOLLAR. NO ONE IS WILLING TO SAY FOR HOW LONG, BUT THE BANK OF FRANCE'S MARKET OPERATIONS OF THE PAST SEVERAL WEEKS OBVIOUSLY HAVE IMPRESSED THE TRADERS IN PARIS.
RUSH

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